

MARKETBEAT

Phoenix

Retail Q3 2019



ECONOMIC INDICATORS

National	Q3 18	Q3 19	12-Month Forecast
GDP Growth	3.1%	2.1%	▲
CPI Growth	2.6%	1.8%	▲
Consumer Spending Growth	5.9%	4.1%	▲
Retail Sales Growth	5.6%	3.7%	▲

Q3 2019 data are based on latest available data. Growth rates are year-over-year.

Regional	Q3 18	Q3 19	12-Month Forecast
Household Income	\$63,800	\$65,800	▲
Population Growth	2.1%	2.1%	▬
Unemployment	4.1%	4.3%	▼

Source: BLS, BOC, Moody's Analytics

Economy

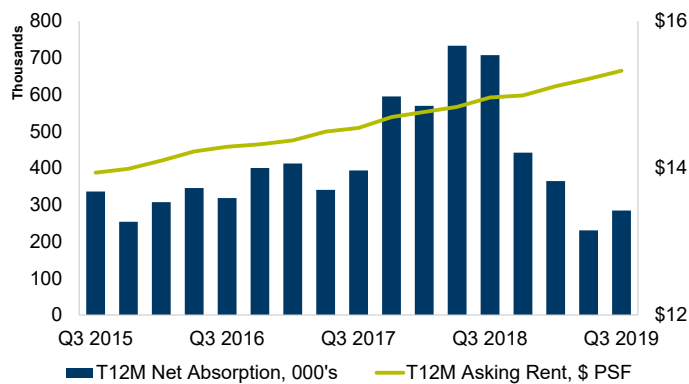
The Metro Phoenix economy continues to improve, adding 54,300 jobs year-over-year (yoy) through the third quarter of 2019. During the same period, the unemployment rate increased from 4.1% to 4.3%.

Market Overview

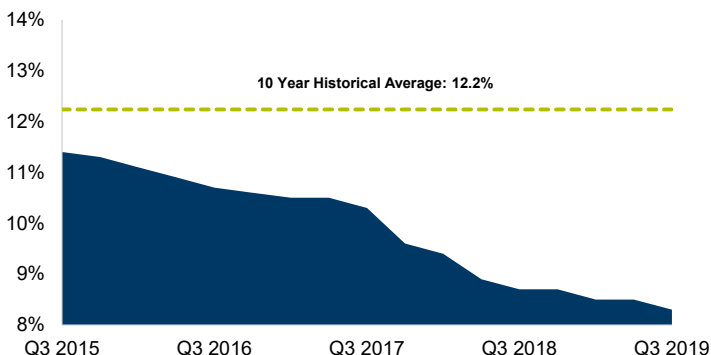
During the third quarter of 2019, vacancy in the Metro Phoenix retail market was 8.3%. This marks the lowest vacancy rate recorded since the third quarter of 2009. The vacancy rate dropped 10 basis points (bps) from 8.4% to 8.3%. The East Phoenix (3.0%), Southwest Phoenix (6.2%), Central Business District (6.3%), and Northwest Phoenix (6.6%) submarkets had the lowest vacancy rates, while the Mesa (11.9%), North I-17 (10.3%), and North Central Phoenix (9.0%) submarkets recorded the highest.

The Metro Phoenix retail market continued to experience positive occupancy growth and absorbed nearly 155,000 square feet (sf) during the third quarter of 2019. This brings the year-to-date (ytd) absorption total to about 284,000 sf. The Southeast Valley (263,000 sf) and the Northwest Phoenix (137,000 sf) submarkets made up the largest gains of positive absorption. The Scottsdale (-58,000 sf) and Mesa (-125,000 sf) submarkets experienced the largest negative absorption. Power & regional malls, as well as strip centers, posted negative absorption while neighborhood & community centers, along with lifestyle centers, recorded positive absorption for the third quarter of 2019. Neighborhood & community centers saw the largest increase in occupied space with over 207,000 sf of positive absorption, bringing the ytd total absorption to 32,000 sf. Strip centers recorded (-38,000 sf) of negative absorption for the third quarter of 2019, which brings the ytd total to roughly 42,000 sf.

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE (IN THOUSANDS)



Overall Vacancy



The average asking rate for the Metro Phoenix retail market was \$15.57 per square foot (psf) on an annual triple-net-basis in the third quarter of 2019. This marks a \$0.03 increase from the \$15.54 average asking rate that was recorded in the second quarter of 2019. Average asking rates increased \$0.37 yoy, a 2.4% increase. The Mesa submarket saw the largest increase of \$0.65, from \$11.78 to \$12.43, quarter-over-quarter (qoq) while the East Phoenix submarket recorded the largest yoy increase from \$18.72 to \$24.99.

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Cushman & Wakefield is currently tracking nearly 347,000 sf of new construction in the Metro Phoenix retail market for the third quarter of 2019. The Southeast Valley submarket had the largest amount of new construction (approximately 154,000 sf) with the large LA Fitness at 40885 N. Ironwood Drive accounting for nearly 34,000 sf. Approximately 46,000 sf of new inventory was added during the third quarter of 2019.

The Metro Phoenix retail market recorded the year's highest positive absorption in the third quarter of 2019, which marks the 32nd straight quarter of positive absorption for the market. Neighborhood & community centers remain the driving factor, recording roughly 208,000 sf of positive absorption. Lifestyle centers continue to show strength in leasing as vacancy rates dropped to 4.2% across the entire Metro Phoenix retail market. The remaining availabilities have higher asking rates, and overall lifestyle rates increased by almost 33%. This is mainly due to new availabilities at Peoria Crossings existing while cheaper spaces in the Northwest Phoenix submarket were absorbed.

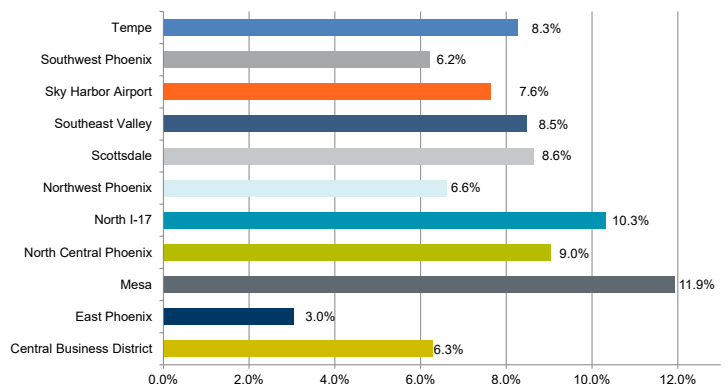
Outlook

- Retail, especially smaller price-point deals, will continue to remain a strong asset in the Metro Phoenix market. Investors and buyers are finding attractive returns at a perceived lower risk compared to other investment options.
- The third quarter of 2019 had the lowest vacancy rate (8.3%) since 2009, and is only expected to get lower this year as we move into the holiday season.
- Experiential retail will continue to grow in 2019 and 2020 as trends continue towards businesses that focus on entertainment experiences such as the Level 1 Arcade Bar in Downtown Gilbert at Heritage Marketplace, the Medieval Times that opened this quarter off Via De Ventura and the Loop 101, as well as the Wolf Lodge which will also be opening soon in the same area.
- Vacancy continues to decline across all retail types, as deliveries slow and demand remains high.

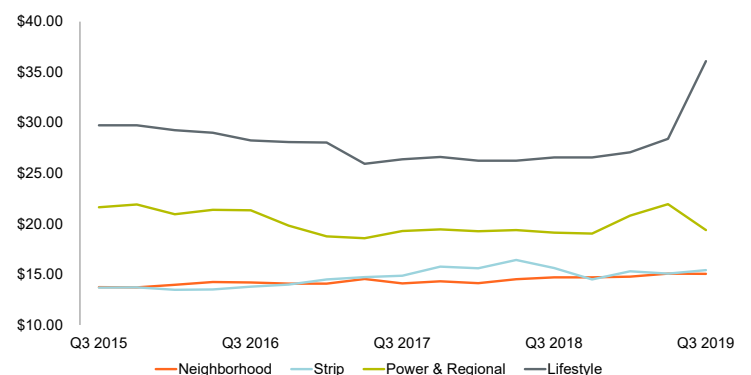
Average Asking Rate by Market (NNN)
EAST PHOENIX CONTINUES TO LEAD RATES SINCE Q1 2019



Vacancy Rate by Market



Average Asking Rate by Type (NNN)



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SUBMARKET	INVENTORY	SUBLET VACANT SF	DIRECT VACANT SF	VACANCY RATE	Q3 NET ABSORPTION	2019 NET ABSORPTION	AVG ASKING RENT (All Classes)
Central Business District	475,839	1,991	27,913	6.3%	-2,519	9,926	\$16.29
East Phoenix	6,128,926	-	186,647	3.0%	-1,861	26,942	\$24.99
Mesa	8,099,650	-	967,146	11.9%	57,996	-125,384	\$12.43
North Central Phoenix	9,879,708	-	892,771	9.0%	3,961	69,522	\$17.46
North I-17	19,419,614	2,150	2,001,093	10.3%	16,589	-57,460	\$12.97
Northwest Phoenix	26,634,085	7,586	1,755,486	6.6%	37,394	137,531	\$16.63
Scottsdale	15,072,421	26,897	1,274,569	8.6%	-38,679	-58,475	\$23.15
Southeast Valley	39,045,163	17,774	3,288,463	8.5%	37,912	262,745	\$15.47
Sky Harbor Airport	1,088,691	-	83,101	7.6%	-18,059	5,522	\$21.63
Southwest Phoenix	3,908,789	-	243,388	6.2%	46,298	17,314	\$13.22
Tempe	6,843,165	5,800	559,793	8.3%	15,903	-3,813	\$14.82
Total	136,596,051	62,198	11,280,370	8.3%	154,935	284,370	\$15.57
Neighborhood & Community	89,237,434	39,731	7,886,205	8.9%	207,551	31,777	\$15.05
Strip	13,186,197	7,977	1,409,226	10.7%	-38,498	41,513	\$15.42
Power & Regional Mall	32,718,744	14,490	1,923,315	5.9%	-35,666	193,470	\$19.38
Lifestyle	1,453,676	-	61,624	4.2%	21,548	17,610	\$36.09
Total	136,596,051	62,198	11,280,370	8.3%	154,935	284,370	\$15.57

ASKING RENTS CONVERTED TO NNN PSF/YR.

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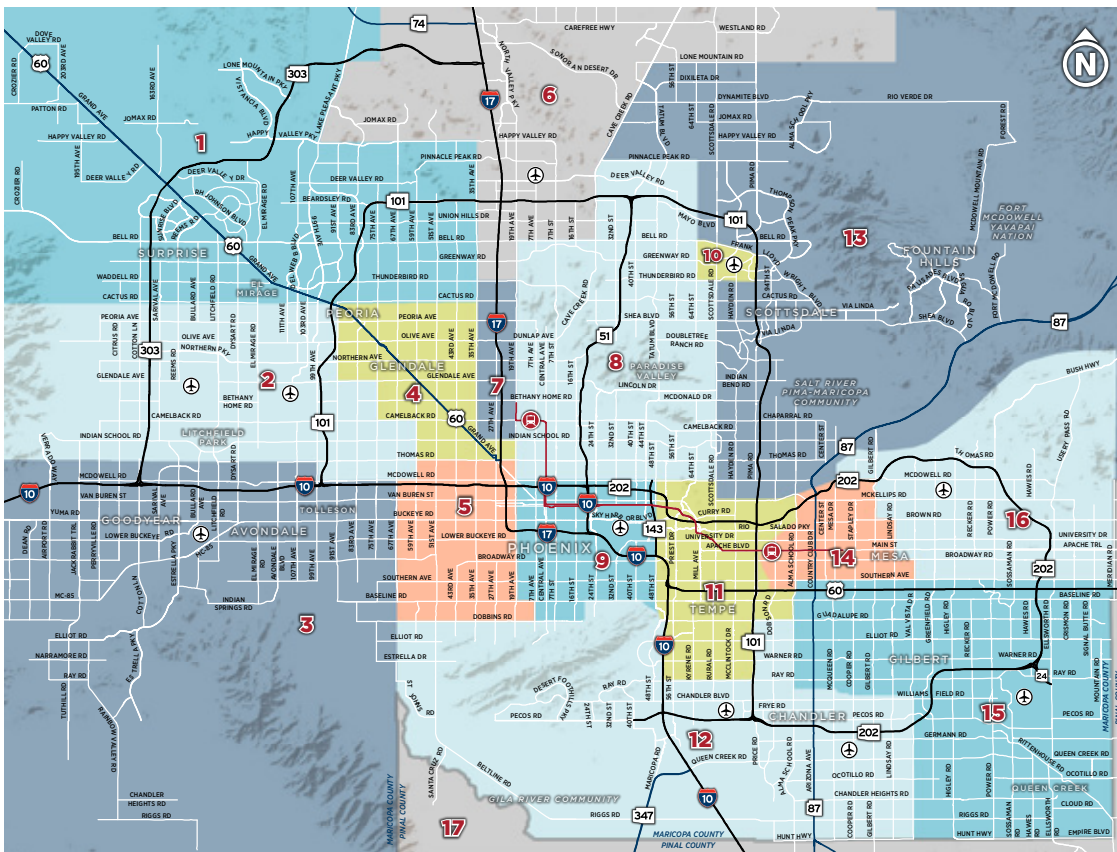
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Key Lease Transactions Q3 2019

PROPERTY ADDRESS	PROPERTY NAME	BLDG SF	BUYER	SALE PRICE	PRICE PER SF	PROPERTY CITY
13220 N Scottsdale Rd	Health Club	285,318	The Related Companies	\$13,625,000.00	\$47.75	Scottsdale
4370-4408 N Miller Rd	Camelback & Miller Plaza	101,000	Weingarten Realty Investors	\$18,474,652.00	\$182.92	Scottsdale
1050 W Elliot Rd	The Groves	88,000	STORE Capital Corporation	\$13,120,000.00	\$149.09	Tempe
31307-31313 N Scottsdale Rd	Scottsdale North Marketplace	66,323	Holualoa Companies	\$15,554,236.00	\$234.52	Scottsdale
10005 W Papago Fwy	Avondale Automall	65,200	Apollo Net Lease Capital Corp.	\$41,500,000.00	\$636.50	Avondale

RETAIL SUBMARKETS



- 1 North Glendale
- 2 Glendale
- 3 Southwest Phoenix
- 4 Grand Avenue
- 5 West Central Phoenix
- 6 Deer Valley
- 7 Black Canyon
- 8 Central Phoenix
- 9 Sky Harbor Airport
- 10 Scottsdale Airpark
- 11 Tempe
- 12 Chandler
- 13 Scottsdale
- 14 West Mesa
- 15 Gilbert/Gateway
- 16 East Mesa
- 17 Pinal

Cushman & Wakefield
2555 E Camelback Road
Suite 400
Phoenix, AZ 85016
cushmanwakefield.com

For more information, contact:
Ronan McNulty
Associate Director
Tel: +1 602 224 4448
Fax: +1 602 253 0528
ronan.mculty@cushwake.com

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